

110TH CONGRESS
1ST SESSION

S. 26

To amend the Internal Revenue Code of 1986 to establish a program demonstrating multiple approaches to Lifelong Learning Accounts, which are portable, worker-owned savings accounts that can be used by workers to help finance education, training, and apprenticeships and which are intended to supplement both public and employer-provided education and training resources, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 4, 2007

Ms. CANTWELL (for herself and Ms. SNOWE) introduced the following bill;
which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to establish a program demonstrating multiple approaches to Lifelong Learning Accounts, which are portable, worker-owned savings accounts that can be used by workers to help finance education, training, and apprenticeships and which are intended to supplement both public and employer-provided education and training resources, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Lifelong Learning Ac-
3 counts Act of 2007”.

4 **SEC. 2. ESTABLISHMENT OF LIFELONG LEARNING AC-**
5 **COUNTS.**

6 (a) IN GENERAL.—Part VIII of subchapter F of
7 chapter 1 (relating to higher education savings entities)
8 is amended by inserting after section 529 the following
9 new section:

10 **“SEC. 529A. LIFELONG LEARNING ACCOUNTS.**

11 “(a) GENERAL RULE.—A lifelong learning account
12 shall be exempt from taxation under this subtitle. Not-
13 withstanding the preceding sentence, any lifelong learning
14 account shall be subject to the taxes imposed by section
15 511 (relating to imposition of tax on unrelated business
16 income of charitable, etc., organizations).

17 “(b) LIFELONG LEARNING ACCOUNTS.—For pur-
18 poses of this title, the term ‘lifelong learning account’
19 means a trust created or organized in the United States
20 for the exclusive benefit of an eligible individual, but only
21 if the written governing instrument creating the trust
22 meets the following requirements:

23 “(1) No contribution will be accepted unless it
24 is in cash.

25 “(2) No contribution will be accepted unless it
26 is made by—

1 “(A) the individual on whose behalf the ac-
 2 count was established at a time when the indi-
 3 vidual was an eligible individual, or

4 “(B) an employer of such individual.

5 “(3) The trustee is a bank (as defined in sec-
 6 tion 408(n)), an agency or instrumentality of a
 7 State, or another person who demonstrates to the
 8 satisfaction of the Secretary that the manner in
 9 which that person will administer the trust will be
 10 consistent with the requirements of this section.

11 “(4) No part of the trust assets will be invested
 12 in any collectible (as defined in section 408(m)).

13 “(5) The assets of the trust will not be commin-
 14 gled with other property except in a common trust
 15 fund or common investment fund.

16 “(c) TIME WHEN CONTRIBUTIONS DEEMED
 17 MADE.—A taxpayer shall be deemed to have made a con-
 18 tribution on the last day of a taxable year if the contribu-
 19 tion is made on account of such taxable year and is made
 20 not later than the time prescribed by law for filing the
 21 return for such taxable year (not including extensions
 22 thereof).

23 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

24 “(1) IN GENERAL.—Except as otherwise pro-
 25 vided in this subsection, any amount distributed out

1 of a lifelong learning account shall be included in
2 gross income by the distributee.

3 “(2) QUALIFIED HIGHER EDUCATION EX-
4 PENSES.—

5 “(A) IN GENERAL.—No amount shall be
6 includible in gross income under paragraph (1)
7 if the qualified higher education expenses of the
8 individual for whom the account was established
9 during the taxable year are not less than the
10 aggregate distributions from the account during
11 such taxable year.

12 “(B) DISTRIBUTIONS IN EXCESS OF EX-
13 PENSES.—If the aggregate distributions from a
14 lifelong learning account for any taxable year
15 exceed the qualified higher education expenses
16 of the individual for whom the account was es-
17 tablished during the taxable year, the amount
18 otherwise includible in gross income under
19 paragraph (1) shall be reduced by the amount
20 which bears the same ratio to the amount which
21 would be includible in gross income under para-
22 graph (1) (without regard to this subpara-
23 graph) as such expenses bear to such aggregate
24 distributions.

1 “(C) ELECTION TO WAIVE EXCLUSION.—A
2 taxpayer may elect to waive the application of
3 this paragraph for any taxable year.

4 “(D) NO DOUBLE BENEFIT.—No exclu-
5 sion, credit, or deduction shall be allowed to the
6 taxpayer under this chapter for any qualified
7 higher education expenses taken into account in
8 determining the amount of the exclusion under
9 this paragraph.

10 “(3) ADDITIONAL TAX.—

11 “(A) IN GENERAL.—The tax imposed by
12 this chapter on the account holder for any tax-
13 able year in which there is a distribution from
14 a lifelong learning account includible in gross
15 income under paragraph (1) shall be increased
16 by 15 percent of the amount so includible.

17 “(B) EXCEPTIONS.—Subparagraph (A)
18 shall not apply if the distribution is made after
19 the account holder dies or becomes disabled
20 (within the meaning of section 72(m)(7)).

21 “(4) TRANSFER OF ACCOUNT INCIDENT TO DI-
22 VORCE.—The transfer of an individual’s interest in
23 a lifelong learning account to such individual’s
24 former spouse under a divorce decree or under a
25 written instrument incident to a divorce shall not be

considered a taxable transfer made by such individual notwithstanding any other provision of this subtitle, and such interest at the time of the transfer shall be treated as a lifelong learning account of such spouse and not of such individual. Thereafter such account shall be treated, for purposes of this subtitle, as maintained for the benefit of such spouse.

“(e) TAX TREATMENT OF ACCOUNTS.—

“(1) LOSS OF EXEMPTION OF ACCOUNT WHERE INDIVIDUAL ENGAGES IN PROHIBITED TRANSACTION.—

“(A) IN GENERAL.—If, during any taxable year of the individual for whose benefit the lifelong learning account is established, the individual engages in any transaction prohibited by section 4975 with respect to the account, the account shall cease to be a lifelong learning account as of the first day of that taxable year.

“(B) ACCOUNT TREATED AS DISTRIBUTING ALL ITS ASSETS.—In any case in which any account ceases to be a lifelong learning account by reason of subparagraph (A) on the first day of any taxable year, paragraph (1) of subsection (d) shall be applied as if there were a distribu-

1 tion on such first day in an amount equal to
 2 the fair market value (on such first day) of all
 3 assets in the account (on such first day).

4 “(2) EFFECT OF PLEDGING ACCOUNT AS SECUR-
 5 RITY.—If, during any taxable year, an individual for
 6 whose benefit a lifelong learning account is estab-
 7 lished uses the account or any portion thereof as se-
 8 curity for a loan, the portion so used shall be treated
 9 as distributed to that individual.

10 “(3) ROLLOVER CONTRIBUTIONS.—Subsection
 11 (d)(1) shall not apply to any amount paid or distrib-
 12 uted out of a lifelong learning account to the indi-
 13 vidual for whose benefit the account is maintained if
 14 such amount is paid into another lifelong learning
 15 account for the benefit of such individual not later
 16 than the 60th day after the day on which the indi-
 17 vidual receives the payment or distribution.

18 “(f) OTHER DEFINITIONS.—For purposes of this sec-
 19 tion—

20 “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible
 21 individual’ means an individual who—

22 “(A) is an employee or a self-employed in-
 23 dividual (within the meaning of section
 24 401(c)(1)(B)), and

1 “(B) is a resident of a State designated by
 2 the Secretary under subsection (i), on the date
 3 the lifelong learning account is established for
 4 such individual.

5 “(2) QUALIFIED HIGHER EDUCATION EX-
 6 PENSES.—The term ‘qualified higher education ex-
 7 penses’ means—

8 “(A) the expenses and courses of instruc-
 9 tion described in section 127(c)(1), and

10 “(B) such expenses, including tools, equip-
 11 ment, information technology devices, and
 12 training and apprenticeship programs, as the
 13 Secretary shall prescribe after consultation with
 14 the Secretary of Labor.

15 “(g) CUSTODIAL ACCOUNTS.—For purposes of this
 16 section, a custodial account shall be treated as a trust if
 17 the assets of such account are held by a bank (as defined
 18 in section 408(n)) or another person who demonstrates,
 19 to the satisfaction of the Secretary, that the manner in
 20 which such person will administer the account will be con-
 21 sistent with the requirements of this section, and if the
 22 custodial account would, except for the fact that it is not
 23 a trust, constitute a lifelong learning account described in
 24 subsection (b). For purposes of this title, in the case of
 25 a custodial account treated as a trust by reason of the

1 preceding sentence, the custodian of such account shall be
 2 treated as the trustee thereof.

3 “(h) REPORTS.—The trustee of a lifelong learning
 4 account shall make such reports regarding such account
 5 to the Secretary and to the individual for whose benefit
 6 the account is maintained with respect to contributions,
 7 distributions, and such other matters as the Secretary
 8 may require under regulations. The reports required by
 9 this subsection shall be filed at such time and in such
 10 manner and furnished to such individuals at such time and
 11 in such manner as may be required by those regulations.

12 “(i) ESTABLISHMENT OF DEMONSTRATION PRO-
 13 GRAM.—From among States which apply (in such form
 14 and manner and at such time as the Secretary deter-
 15 mines), the Secretary shall designate 10 States in which
 16 residents shall be treated as eligible individuals.

17 “(j) LIMITATION ON NUMBER OF TAXPAYERS HAV-
 18 ING LIFELONG LEARNING ACCOUNTS.—

19 “(1) IN GENERAL.—No individual shall be
 20 treated as an eligible individual for any taxable year
 21 beginning after the cut-off year unless such indi-
 22 vidual was an eligible individual for any taxable year
 23 ending on or before the close of the cut-off year.

24 “(2) CUT-OFF YEAR.—For purposes of para-
 25 graph (1), the term ‘cut-off year’ means the first

1 calendar year for which the Secretary determines
 2 that the number of eligible individuals for whom a
 3 lifelong learning account has been established ex-
 4 ceeds 200,000 by the close of such calendar year.

5 “(3) REPORTING.—The Secretary shall estab-
 6 lish such reporting requirements for trustees of life-
 7 long learning accounts as are necessary to carry out
 8 this subsection.”.

9 (b) TAX ON PROHIBITED TRANSACTIONS.—

10 (1) Paragraph (1) of section 4975(e) of the In-
 11 ternal Revenue Code of 1986 (relating to prohibited
 12 transactions) is amended by redesignating subpara-
 13 graphs (F) and (G) as subparagraphs (G) and (H),
 14 respectively, and by inserting the following new sub-
 15 paragraph after subparagraph (E):

16 “(F) a lifelong learning account described
 17 in section 529A(b),”.

18 (2) Subsection (c) of section 4975 of such Code
 19 is amended by adding at the end the following new
 20 paragraph:

21 “(7) SPECIAL RULE FOR LIFELONG LEARNING
 22 ACCOUNTS.—An individual for whose benefit a life-
 23 long learning account is established shall be exempt
 24 from the tax imposed by this section with respect to
 25 any transaction concerning such account (which

1 would otherwise be taxable under this section) if,
 2 with respect to such transaction, the account ceases
 3 to be a lifelong learning account by reason of the ap-
 4 plication of section 529A(e)(1)(A) to such account.”.

5 (c) FAILURE TO PROVIDE REPORTS ON LIFELONG
 6 LEARNING ACCOUNTS.—Paragraph (2) of section 6693(a)
 7 of the Internal Revenue Code of 1986 is amended by strik-
 8 ing “and” at the end of subparagraph (D), by redesign-
 9 ing subparagraph (E) as subparagraph (F), and by in-
 10 serting after subparagraph (D) the following new subpara-
 11 graph:

12 “(E) section 529A(h) (relating to lifelong
 13 learning accounts), and”.

14 (d) CLERICAL AMENDMENT.—The table of sections
 15 for part VIII of subchapter F of chapter 1 of the Internal
 16 Revenue Code of 1986 is amended by inserting after the
 17 item relating to section 529 the following new item:

“Sec. 529A. Lifelong learning accounts.”.

18 (e) EFFECTIVE DATE.—The amendments made by
 19 this section shall apply to taxable years beginning after
 20 December 31, 2006.

21 **SEC. 3. NONREFUNDABLE PERSONAL CREDIT FOR CON-**
 22 **TRIBUTIONS TO LIFELONG LEARNING AC-**
 23 **COUNTS.**

24 (a) GENERAL RULE.—Subpart A of part IV of sub-
 25 chapter A of chapter 1 of the Internal Revenue Code of

1 1986 (relating to nonrefundable personal credits) is
 2 amended by inserting after section 25D the following new
 3 section:

4 **“SEC. 25E. CONTRIBUTIONS TO LIFELONG LEARNING AC-**
 5 **COUNTS.**

6 “(a) GENERAL RULE.—In the case of an eligible indi-
 7 vidual, there shall be allowed as a credit against the tax
 8 imposed by this chapter for the taxable year an amount
 9 equal to the aggregate amount paid in cash for the taxable
 10 year by such individual to a lifelong learning account es-
 11 tablished for the benefit of such individual under section
 12 529A.

13 “(b) LIMITATIONS.—

14 “(1) IN GENERAL.—The credit allowed under
 15 subsection (a) with respect to any taxable year shall
 16 not exceed \$500.

17 “(2) LIMITATION BASED ON MODIFIED AD-
 18 JUSTED GROSS INCOME.—The amount which would
 19 (but for this paragraph) be otherwise allowable as a
 20 credit under subsection (a) for the taxable year shall
 21 be reduced (but not below zero) by the amount
 22 which bears the same ratio to the amount which
 23 would (but for this paragraph) be otherwise allow-
 24 able under subsection (a) as—

25 “(A) the excess of—

1 “(i) the taxpayer’s modified adjusted
 2 gross income (as defined in section
 3 530(c)(2)) for the taxable year, over

4 “(ii) \$55,000 (\$75,000 in the case of
 5 a joint return), bears to

6 “(B) \$10,000 (\$13,636 in the case of a
 7 joint return).

8 “(c) ELIGIBLE INDIVIDUAL.—The term ‘eligible indi-
 9 vidual’ has the meaning given such term by section
 10 529A(f)(1).”.

11 (b) CONFORMING AMENDMENT.—The table of sec-
 12 tions for subpart A of part IV of subchapter A of chapter
 13 1 of the Internal Revenue Code of 1986 is amended by
 14 inserting after the item relating to section 25D the fol-
 15 lowing new item:

“Sec. 25E. Contributions to lifelong learning accounts.”.

16 (c) EFFECTIVE DATE.—The amendments made by
 17 this section shall apply to taxable years beginning after
 18 December 31, 2006.

19 **SEC. 4. TAX TREATMENT OF CONTRIBUTIONS BY EMPLOY-**
 20 **ERS TO LIFELONG LEARNING ACCOUNTS OF**
 21 **THEIR EMPLOYEES.**

22 (a) ALLOWANCE OF CREDIT TO EMPLOYERS.—

23 (1) IN GENERAL.—Subpart D of part IV of
 24 subchapter A of chapter 1 of the Internal Revenue
 25 Code of 1986 (relating to business related credits) is

1 amended by adding at the end the following new sec-
 2 tion:

3 **“SEC. 450. CONTRIBUTIONS BY EMPLOYERS TO LIFELONG**
 4 **LEARNING ACCOUNTS.**

5 “(a) IN GENERAL.—For purposes of section 38, in
 6 the case of an employer, the lifelong learning contribution
 7 credit determined under this section for any taxable year
 8 is an amount equal to the aggregate qualified lifelong
 9 learning contributions of the employer for the taxable
 10 year.

11 “(b) QUALIFIED LIFELONG LEARNING CONTRIBU-
 12 TION.—For purposes of this section—

13 “(1) IN GENERAL.—The term ‘qualified lifelong
 14 learning contribution’ means a contribution made by
 15 an employer—

16 “(A) on behalf of an employee of such em-
 17 ployer to a lifelong learning account established
 18 on behalf of such employee, and

19 “(B) under a program which meets the re-
 20 quirements of paragraphs (2) through (6) of
 21 section 127(b).

22 “(2) DOLLAR LIMITATION.—The aggregate con-
 23 tributions made by an employer on behalf of any em-
 24 ployee which may be treated as qualified lifelong

1 learning contributions for any calendar year shall
 2 not exceed the lesser of—

3 “(A) the contributions made by the em-
 4 ployee to the employee’s lifelong learning ac-
 5 count during the calendar year, or

6 “(B) \$500.

7 “(c) COORDINATION WITH ACCOUNT LIMITATION.—
 8 Nothing in this paragraph shall be treated as allowing a
 9 contribution in excess of the limitation on contributions
 10 to a lifelong learning account under section 25E(b)(1).

11 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
 12 poses of this section—

13 “(1) DEFINITIONS.—Any term used in this sec-
 14 tion which is also used in section 529A shall have
 15 the same meaning as when used in such section.

16 “(2) SPECIAL RULES.—Rules similar to the
 17 rules of section 45E(e) shall apply for purposes of
 18 this section.”.

19 (2) CREDIT PART OF GENERAL BUSINESS
 20 CREDIT.—Section 38(b) of such Code is amended by
 21 striking “and” at the end of paragraph (30), by
 22 striking the period at the end of paragraph (31) and
 23 inserting “, plus”, and by adding at the end the fol-
 24 lowing new paragraph:

1 “(32) the lifelong learning contribution credit
2 determined under section 45O.”.

3 (3) CONFORMING AMENDMENTS.—

4 (A) DEDUCTION FOR UNUSED CREDIT.—

5 Section 196(c) of such Code is amended by
6 striking “and” at the end of paragraph (12), by
7 striking the period at the end of paragraph (13)
8 and inserting “, and”, and by adding at the end
9 the following new paragraph:

10 “(14) the employer lifelong learning contribu-
11 tion credit determined under section 45O(a).”.

12 (B) CLERICAL AMENDMENT.—The table of
13 sections for subpart D of part IV of subchapter
14 A of chapter 1 of such Code is amended by
15 adding at the end the following new item:

“Sec. 45O. Contributions by employers to lifelong learning accounts.”.

16 (b) EMPLOYER CONTRIBUTIONS EXCLUDED FROM
17 INCOME.—Section 127 of the Internal Revenue Code of
18 1986 (relating to educational assistance) is amended by
19 redesignating subsection (d) as subsection (e) and by in-
20 serting after subsection (c) the following new subsection:

21 “(d) EMPLOYER CONTRIBUTIONS TO LIFELONG
22 LEARNING ACCOUNT.—

23 “(1) IN GENERAL.—Gross income of an em-
24 ployee of an employer shall not include the amount
25 of any contribution by the employer to a lifelong

1 learning account established on behalf of the em-
 2 ployee.

3 “(2) DEFINITIONS.—Any term used in this sec-
 4 tion which is also used in section 529A shall have
 5 the same meaning as when used in such section.”.

6 (c) EFFECTIVE DATE.—The amendments made by
 7 this section shall apply to taxable years beginning after
 8 December 31, 2006.

9 **SEC. 5. STUDY ON EFFECTIVENESS OF LIFELONG LEARN-**
 10 **ING ACCOUNTS DEMONSTRATION PROGRAM.**

11 (a) IN GENERAL.—The Secretary of the Treasury in
 12 collaboration with the Secretaries of Labor and Education
 13 shall conduct a study on lifelong learning accounts estab-
 14 lished under section 529A of the Internal Revenue Code
 15 of 1986 and the credits established under sections 25E
 16 and 45O of such Code. Such study shall examine the effec-
 17 tiveness of the accounts in increasing funding for career-
 18 related education and the extent to which the tax benefits
 19 under such sections are provided to low-income individ-
 20 uals.

21 (b) REPORT.—Not later than January 1, 2009, the
 22 Secretary of the Treasury shall submit to Congress a re-
 23 port on the study conducted under subsection (a).

○